



**OPENING BUDGET PRESENTATION 2002/2003  
MINISTER OF FINANCE AND PLANNING  
DR. THE HON. OMAR DAVIES, MP**

**2002 April 18**

## **INTRODUCTION**

The Budget Debate has over the years taken on an importance beyond a statement of government expenditure and the way in which this expenditure will be financed. It is the opportunity for detailed examination of the state of the society and economy, as well as a sharing with the country of a vision of future developments.

During my tenure as Minister of Finance we have deliberately aimed at bringing additional discipline to the process by ensuring that the whole process is begun and completed during April.

Recall when the Prime Minister articulated the objective of doing this some years ago.

For us to be able to so do, there is the requirement that many highly skilled professionals in various departments work assiduously to make available to a large range of technical documents and publications. I always run the risk of forgetting some names, but must place on public record, those who have major responsibilities:

The Financial Secretary, Deputy Financial Secretaries, staff of the Ministry of Finance and the various departments; the Governor and the staff of BOJ; the Director General and the staff of PIOJ; the Director General and staff of STATIN; all other departments and heads of departments in the Ministry of Finance and Planning.

As regards STATIN, major challenge. But must place on record special appreciation for the work of the new Director General, who came in at a difficult time and has raised efficiency levels in terms CPI results being available before the 15<sup>th</sup> of each month, reducing the lag time in terms of availability of trade data, moving us towards an ability to publish during this year, quarterly GDP data, as well as executing census during a difficult year. As regards census, we will have preliminary data by mid year and full tables before the end of the year.

Must pay tribute to my personal staff, technical and political; my constituents who provide me not only with support but also with reality checks as to the implications of macro economic policy. Most of all, special thanks to my family.

We here in Parliament have many reasons to celebrate. In a sense only when you have been through the process of offering yourself for acceptance or rejection by the population, do you truly understand what democracy and governance is about.

I must take the opportunity to congratulate the Prime Minister on his 10<sup>th</sup> year in that position. Whilst the late Prime Minister Manley in total served for a longer period, no other has had a decade of unbroken service, in that the ultimate position in our political system.

I must also congratulate the Leader of Opposition who also served as Prime Minister and who will shortly celebrate 40 years as an elected Member of Parliament. Whilst one should never say never, it is difficult to imagine anyone breaking that record in the foreseeable future.



In much of the discussion about all that is wrong with Jamaica, little mention is made about the country, which has been blessed with leadership, recognized internationally, even though not always appreciated locally.

Before I turn to the structure of my presentation, I will make reference to one minor housekeeping matter. It relates to the Air Jamaica Pension Fund and the Privy Council's decision in terms of how the surplus should be divided.

Perhaps this Honourable House will recall following an initial Privy Council ruling, an interim payment was made and since there was a disagreement between the Trustees and the Government about the interpretation of the Privy Council's judgment, the matter was returned to the Privy Council for clarification. This clarification was received some weeks ago and I invited the Trustees to a meeting to discuss how to bring the matter to closure.

I am pleased to announce that, whilst there were some initial differences in the calculations, we have reached a compromise settlement, which will require an additional payment to the Trustees of approximately \$360 million. As soon as the legal papers have been drafted and signed, and the Budget has been approved, this payment will be made.

I wish to place on record, my appreciation to the GOJ negotiating team and to the team representing the Trustees, for the amicable and professional way in which these discussions were conducted and concluded.

I now turn to the structure of the presentation. This represents the ninth consecutive debate, which I will be opening - this edition represents the most difficult of all.

It has to be seen within the context of an Administration, which has been in office for thirteen years, led by a Prime Minister who has been in office for ten years. It has to be seen in the context of a country which has faced a series of difficult challenges, and has to be seen in the context of this being a year when the ultimate decision-makers - the people determine who will present the next Budget.

The presentation will be divided into the following sections:

First, the general context within which the Budget has been framed, followed by discussion of the macro economic out-turn for the last calendar and fiscal years.

Next, we will speak to the culmination of the work of FINSAC, then we will look at the macro economic programme for fiscal year 2002/03 as well as for the medium term.

We will then speak to the question of Debt Management, which will require the same level of energy and attention that was given to the stabilization of the exchange rate system or to healing the financial sector, and then highlight the major features of the Expenditure Budget, followed by a discussion of Growth and Employment Creation.

We will then discuss the financing of the Budget and wrap up the presentation by looking at the challenges, which the country faces, in the medium term.



## THE CONTEXT

As I indicated before, this is not an ordinary Budget. The Administration has been in office for 13 years. Led for the first three years by the late Prime Minister Michael Manley, and for the subsequent years by our present Prime Minister.

Over the period, the economy has undergone far-reaching programmes of reformation and restructuring.

We are not, for one moment, claiming that this programme of reform was started in 1989. Credit must be given to the present Leader of the Opposition and his team for initiating aspects of the reform, which laid the foundation particularly in the latter part of the 1980s, for what was subsequently achieved.

Nonetheless, the reality is that at the beginning of the 90's the Jamaican economy was a very heavily regulated one with price controls, exchange control and a high level of government-ownership - JPS, the electricity monopoly - telephone company, telecommunications monopoly; two dominant trading houses.

It was an economy with no foreign exchange reserves. The truth is, the net international reserve was negative. To be precise, -(US) \$393 million, in February, 1989. No one had confidence in the foreign exchange system.

The private sector was dependent on the Bank of Jamaica for foreign exchange through a fictitious auction. Everybody played a role even though they realized that there was no connection with reality. (Soviet nuclear scientists at the collapse of the Union).

It was an economy in which the "second sale" of motorcars carried a higher value than new cars and an economy in which businessmen spent more time at the BOJ seeking access to a promise of foreign exchange than in their factories, or at their place of business.

This Administration set out to change this. We set out to liberate the productive forces and to eliminate, or to drastically reduce, structural barriers. The reality is that we had no real choice in carrying out the reforms. There was no future for Jamaica in the world economy without these reforms being taken.

Jamaica could not expect to have access to the markets of other countries while seeking to remain behind barriers of protection where inefficient producers of goods and services were kept alive through artificially high tariffs.

Jamaica's domestic market and indeed CARICOM's are too small to ensure sustainability of such a policy.

Therefore, all aspects of making macro-economic and trade policy had to be geared toward placing local firms in a position to trade and compete successfully - to produce, whether goods or services, of quality and at a price which made them competitive internationally.

The fact is that there was need for paradigm shift, not only in terms of the attitude of the Administration but perhaps even more so from the point of view of the private sector. The reality is that whilst being world class, in terms of macro economic management is a necessary condition, it is not sufficient to move the country forward. Of greater importance is the need for entrepreneurial initiatives to ensure sustained ability to compete.

This Administration, first under the leadership of the late Prime Minister Manley, and then for the last decade under the leadership of the present Prime Minister, recognized that there was no future in appealing to the rich developing countries for mercy. Each government had to learn that there is no



space on the global map for countries seeking special dispensation on the grounds that they are poor struggling third world countries.

Put simply, in every area you are either "world class" or you are "no class".

To carry out changes of such magnitude, it has been painful and traumatic, particularly for those in sectors and in specific firms that have had to face major restructuring. No one, and certainly no one in this Administration, will seek to suggest that there has been no fallout.

However, given that there have been firms, which have recognized the inevitability of change and have taken the required steps.

I draw attention of members of the Honourable House, to two reports. The first was carried in the Daily Observer of April 3, 2002, of a survey. It was conducted by a private sector firm amongst bankers, brokers, manufacturers and executives in both the tourism and insurance sectors.

The results of the survey are instructive. Amongst the individuals - 85% expected the economy to grow by up to 2%: 40% expected growth of between 2% and 4%: the over-whelming majority expected low inflation, exchange rate stability and a continuing lowering of interest rates.

The survey also showed that the respondents worried about the level of government debt and the impact on the financing of the Budget.

The results of this survey are heartening to this Administration, not merely because of expressions of confidence in the future, but more so because they have clearly demonstrated the level of maturity in the way the role of the Budget is perceived. The second report is in two parts: a Survey of Business Confidence, and a Survey of Consumer Confidence. (Go to Surveys).

The concerns noted by those surveyed are precisely those, which have influenced in the structure of this Budget. This is no Election Budget in the old time sense where there were numerous "goodies" in an attempt to influence the electorate.

This Budget is based on presenting the facts to the people, demonstrating what are the challenges and what we intend to do about them.

Finally, in putting this Budget presentation in context, let me say something about the target audience. There actually are several groupings at which this presentation is directed.

First, there are the people of the country, those who are most directly affected by the policies and programmes, which are financed through public expenditure. I would fool no one if I did not indicate that of particular interest to us, are the voters.

Secondly, there is the domestic business sector of whom we expect much. It is the members of that sector who would commit their resources, who will seek to borrow to invest to assist with expansion of the economy. The members of this sector have to be reassured about the soundness of the economic policies being pursued.

Thirdly, there is the domestic financial sector. Members of this sector play a critical role of being the guardians of the wealth of the population. Their decisions will determine which businesses receive credit and how much government will pay for the resources borrowed locally.

Fourthly, there are the leaders of the international financial institutions, both bilateral and multilateral. They are still important in terms of support for social and infrastructural projects.



Fifthly, there are foreign investors who wish to be reassured that stable macro economic policies are in place and will be sustained. In addition, that social stability is guaranteed in the country where they will be risking their investments.

Ten years ago those five sectors were also of importance although their relative importance would have changed in the decade. To them must be added a sixth significant grouping - the international private capital market.

I am talking about rating agencies, pension fund managers, banks, insurance companies, investment houses, all of which now assess Jamaica's credit worthiness each week as they have committed billions of US dollars of their clients funds to this country.

The members of this latter group carry out analysis - not in terms of local politics, not in terms of populist utterances but in terms of whether what an Administration says is what it does, and furthermore, what it intends to do is feasible and credible.

This is a new dimension to the context of Budget presentation and it is one, which not everyone has fully recognized.



## MACRO-ECONOMIC OUTTURN

**GDP** - As colleagues would see from the documentation circulated, there was growth in the economy in calendar year 2001 of 1.7%. Significant growth was recorded (over 5%) in agriculture, transport and communications. In the case of agriculture, this represents a significant turn around from year 2000, which suffered badly because of drought. For transportation and communication this, to a large extent, was due to the continued vibrancy in the telecommunications sector with unprecedented levels of investment.

Whilst growth of just under 2% is welcome and stands up well in comparison with other countries, it should be realized that we were on track for growth of at least twice that level with two-thirds of the year gone. At the end of August the estimate was that we were in the range of 3.5%.

The last 3½ months of the year were disastrous with significant declines in several sectors resulting mainly from a downturn in the travel trade.

**INFLATION** – First the data. For calendar year 2001 there was inflation of 8.8%, the fifth consecutive calendar year of single digit inflation. This has not occurred since the early 1960s. For fiscal year 01/02 the outturn was 7.6%, the sixth calendar year of single digit inflation. Again we have to go back 25 to 30 years for any similar outturn. Furthermore, whilst one quarter doth not a year make, the first three months of this calendar year, January through March, have been very encouraging with inflation being 0.6%.

One must never say that one has won the inflation battle, but everyone recognises that the general population has bought into the idea of stable prices, has “bought into” the idea that annual price increases must be low – less than 10% and hopefully closer to 5%.

How do you judge whether a country has made this psychological breakthrough? You judge it when a retailer or wholesaler thinks several times before increasing the price of his product. You judge it when he seeks the cheapest supplier; either domestic or foreign, for his raw material inputs or for the final product he sells. You judge it when labour unions and workers come forward with a willingness to negotiate realistic wage increases, as is the case with workers in the sugar industry.

However, sometimes you have to go beyond the numbers and the Minister of Finance judges it when on his visit to the supermarket each Saturday morning, pensioners greet him with a hug and a smile because they know that their fixed allowances can stretch a little further.

When we talk about controlling inflation – keeping prices under control, this is not a theoretical position. It is plain and simple a solid achievement.

**FOREIGN EXCHANGE/NIR** - We now report on these indicators as a matter of record rather than for any serious analysis. The Net International Reserves (NIR) as at March 31 was just under US\$1,950M. This is not only a record level – never seen before in our history, but if the truth be told, a level none of us dreamt that we would see in our lifetime.

This figure, which I have given you, refers to the holdings of the Bank of Jamaica. This is not counting the over US\$1.1 billion held by private individuals and private firms in foreign exchange accounts with domestic institutions.

In other words, the Government and people of Jamaica hold foreign exchange reserves of over US\$3 billion. This is, as I have indicated before, not only unprecedented, but beyond anyone's wildest dreams.



The reserve position has allowed the Bank of Jamaica to be able to ensure that discipline and order is maintained in the foreign exchange market. Removing concerns about accessing foreign exchange – whether it be for business or pleasure – is just another solid achievement of this Administration.

Who would ever have dreamed that my technical advisers in the Ministry of Finance and the Bank of Jamaica would be confronted with the “problem” – note I said the “problem” – of curtailing the rate of growth of the NIR. Once upon a time, the major problem, which we talked about daily, was how to bring some funds into the foreign exchange market. Recall the famous statement “Ask no questions”.

I would like to pause a moment to refute an erroneous notion that the NIR has been built up through borrowings. I have heard it expressed in different places and before it attains any greater credibility, based on the number of times it is repeated, let us deal with it and take it out once and for all.

Even as I say that I must share with colleagues some words of wisdom from my boss, the Prime Minister. He has warned me on various occasions that on some issues those who wish to carry a certain line have no intention of being “confused by the facts”. Nonetheless, let me lay out the facts.

In looking at the five fiscal years 1997/98-2001/02, the data reveal the following: Total loan flows to the GOJ add up to US\$2.6 billion. At the same time, we have paid out US\$3.3 billion for debt servicing. In other words, if you compare inflows from loans against our debt servicing, GOJ has had to find US\$700 million from its reserves to pay down external debt.

During the same period, the NIR has grown from US\$595 million to US\$1.94 billion, which means that even whilst paying out US\$700 million more than we had borrowed, the NIR had grown by US\$1,350 million.

I sincerely hope this puts to rest the notion that the build up of the NIR has been occasioned by our borrowings.

**INTEREST RATES** – Let me begin by indicating that this Administration is firmly of the view that interest rates remain too high. They are too high for the private sector and they are too high for the Government. Interest payments, as you know, represent the largest single expenditure item. With a domestic debt stock of J\$300 billion. Every reduction of one percentage point in the average domestic interest rate could mean a saving of approximately \$3 billion.

Think of all the good things we could do in terms of education, health, Lift-Up Jamaica and even the SESP with some of that money.

However, there has been movement and we continue to move in the right direction. The results of the last Treasury Bill auction yielded an interest rate of 13.43%. This converts to just over 10% after tax.

Progress has been made. The average interest rate paid by Government on its debt last year was 16%. Our projection is that the average for this fiscal year will be 14.7%. Two further points need to be made. The first is that the continued downward movement in interest rate does not result from wishing and hoping, but must be based on a credible reduction in debt servicing obligation outlined by the Government. Simply lamenting the high level of interest rates makes no impression on the market. Reaction of the market is based on actions not hopes; hence my reference earlier to concerns by those who responded to the domestic survey about the debt- servicing burden. The Administration recognises this issue and our commitment to reducing this burden is reflected in the tight rein on expenditure.

The final point, which must be made about interest rates, is that the spread between average deposit rates in the financial sector and the rates that the private sector faces is too great. I say this not in a sense of rancor, but as a simple statement of fact.



Some years ago the cry was that this huge spread was due to the level of the cash reserve ratio – in simple terms the percentage of deposits, which banks had to hold with the Bank of Jamaica without getting any interest on it. As recent as August 1998, the cash reserve ratio was 25%. This means that for every one hundred dollars of deposit taken in by an institution, it had to place twenty-five dollars with the Bank of Jamaica and received no interest for it.

The argument was that the bank only had seventy-five dollars to lend out and hence had to inflate the interest rates charged to customers in order to compensate for the high cash reserve ratio. This was the argument advanced. The Administration heard, listened and acted.

Since August 1998, the Bank of Jamaica has systematically reduced the cash reserve ratio to the point where it now stands at 9%. However, we cannot point to a corresponding and proportionate reduction in the lending rate to commercial customers.

Something must be done and I serve notice to my friends and colleagues in the commercial banking sector that the Governor of the Central Bank and I will be meeting with you shortly to discuss how we can collaborate to ensure that the rate of interest faced by private sector borrowers moves down more quickly.

**SLC/MEASUREMENT OF POVERTY** – Jamaica has long established itself in terms of the compilation and provision of data on various socio-economic indicators. This is a tradition which reflects well on the country as internationally it is accepted that data produced by STATIN, the Bank of Jamaica, the PIOJ and the Ministry of Finance of the highest quality placing us in the company of First World countries. As I said “world-class or no class”.

In fact, there are very few countries with a comparable publication to the *Economic and Social Survey*. Similarly, there are few countries with a document comparable to the *Survey of Living Conditions*.

Tabled today, is the document for 2001. There are several interesting results and hopefully, the media and the academicians will seek to analyse the data sets, not just to tell us how badly off we are, but also where there has been progress.

The SLC highlights the fact that we have an aging population with the cohort of 65 years and over being the fastest growing segment of the population. There are obvious social policy implications in terms of the provision of health care and in terms of pension reform and Social Safety Net programmes.

Real per capita consumption increased by 8.6 percent in 2001, compared to 2000. The strongest recovery was in the rural areas, where real consumption increased by nearly 17%. This jump in the rural areas is linked to the recovery in the agricultural sector last year.

Let me now turn to the measurement of poverty, which is the indicator on which greatest focus is placed each year. The incidence of poverty decreased in 2001, moving to 16.8% from 18.7% the year before. However, although poverty decreased in the rural areas, there still remains an imbalance with rural areas having approximately one in four classified as living in poverty. That remains an issue which will demand special attention in terms of policy decisions.

The methodology to develop an indication of the levels of poverty was first formalized in 1990 and whilst we have obviously not lifted every individual or family out of poverty, it is instructive that in that first year poverty was at the level of 28.4% and has been systematically reduced to 16.8% in 2001.

Further, the revamped Social Safety Net programme, which the PM launched recently, is geared toward moving that figure down further.

Finally, the data on education indicate that there have been gains in several areas, particularly in terms of enrolment in Early Childhood and the secondary levels.





**LABOUR FORCE AND EMPLOYMENT** - During 2001, there was a decline in the average of unemployment rate to 15% although the unemployment rate for females still remains, on an average, twice that for males.

The shift toward a service-driven economy continues with the share of employment produced by services increasing to 63% at the expense of the goods producing sector.

**THE INTERNATIONAL CONTEXT.** As I have indicated before, the analysis of the Jamaican economy is no longer confined to persons located here. For a host of reasons, outsiders are concerned about what we do and carry out their analysis, which they publish.

During the year both Moodys and Standard and Poors reassessed us. Moodys reaffirmed its Ba3/B1 rating with a stable outlook and Standard and Poors its B+ rating for our long-term foreign currency debt.

We received strong commendation for fiscal discipline and in particular the political commitment to such discipline.

Note was taken of the stable political environment and the fact that the Administration had delivered on commitments made in healing the financial sector and in divesting.

The major concern articulated by both rating agencies was the high debt burden and the difficulty of servicing that debt and bringing the ratios down. It is an issue to which I will return, again and again.

Despite these problems, our performance during the calendar and fiscal year stands up against that of many other countries, which used to be shown to us as the example of how proper macro-economic management should be executed.

We take no pleasure in seeing other countries that are struggling. We understand that feeling very well.

Whilst our 1.7% of real growth will not overwhelm the world, it is growth within the context of a stable interest rate system, it is growth within the context of continued expression of confidence by the rating agencies, it is growth in terms of continued build up in the NIR and growth in the context of poverty reduction.

**ARGENTINA** - I do not intend to spend much time on the difficulties which have descended on this country, a country which not so far in the past had the fifth largest economy in the world, a country which had a strong economy built on a vibrant goods producing sector.

It is also a country whose economic policies in the latter half of 1990s were hailed as examples to be aped by all countries with similar problems. At the heart of these policies was a fixed relationship between the Argentine Peso and the US Dollar with full backing of the currency enshrined in legislation. We all recall that when we faced instability in our foreign exchange market, as we passed through difficult periods of negative growth and high inflation, the aping of the Argentine model was the recommended solution. The famous Three Bills.

The essential point that I dared to make then and I feel obliged to repeat now, is that we possess the technical capability to design appropriate policy responses to meet our challenges. The challenges have been many and varied, but we have systematically attacked and more often than not, overcome them.

The year 2001 was indeed a difficult one, but as this review has shown, we did not do badly, despite three significant shocks to the economy.



## MEDIUM-TERM MACRO-ECONOMIC PROGRAMME

Continuing the pattern that we have developed over the last several years, we not only present the major macro-economic targets for the fiscal year under discussion, but equally important, targets for the medium-term.

Consistent with what I have said about the extent to which the budget receives attention, not only domestically but internationally, these targets are closely monitored and hence great care is taken to ensure that the targets are credible and can be achieved within the context of the policies which have been articulated. We have circulated this profile and I will simply draw attention to the highlights.

In terms of inflation, the target is that for the fiscal year we will be in the 5-6% range. As I have mentioned earlier, the first three months of the calendar year have been very encouraging. The challenge is to maintain that over the next twelve months.

The GDP target is given in the range of 2-4%. The lower end – the 2% figure reflects a concern about the rate of recovery in the travel industry as well as question marks about oil prices given the instability in the Middle East.

The final indicator to which I wish to draw attention relates to the Central Government's accounts. It will be noted that two sets of figures are given. One uses the GOJ methodology and the other the IMF methodology.

The difference in the methodologies is straightforward. The GOJ counts divestment proceeds as part of revenues. Hence we calculate the deficit as the difference between revenues (including divestment proceeds) and expenditure. The IMF's view is that divestment proceeds are one-off occurrences and hence should not be classified with revenues. Rather they should be seen as one-off inflows – financing as it were.

The difference disappears, or is minimized, if there are no divestment proceeds or they do not amount to much. Using either methodology the objective is to return to a small fiscal surplus in fiscal year 2004/05. For the forthcoming fiscal year 2002/03, using the IMF methodology the target deficit is 4.4% of GDP. Using the GOJ methodology it will be 2.5% of GDP.

As I explained the difference is accounted for by the fact that we expect proceeds from the various divestment efforts this year to be significant - approximately 2% of GDP. This we will include in revenues and in the main, use to pay down debt. The deficit target for this fiscal year is an extremely ambitious one. It requires that all Ministries and Departments exhibit a level of fiscal control, which may indeed be unprecedented. There are several ministries, which were I the sector Minister, I too would be demanding more. However, the imperative of reducing debt servicing cost does not permit us to have a larger deficit than has been set as the target.



## **FINSAC AND THE FINANCIAL SECTOR**

During the fiscal year the financial sector has been dominated by positive developments. In terms of legislation, following the successful establishment of the FSC, the long awaited Insurance Act was passed after a few months a deliberation by a Joint Select Committee of both Houses of Parliament.

The only outstanding piece of legislation to put the FSC firmly on its way relates to pension. We give the commitment that this will be tackled in this present legislative/fiscal year.

In the meanwhile the regulatory agencies continue to do their work quietly and efficiently. The reality, following the intervention, is that the sector has been in the best health in the recent past.

I intend to spend some time looking at Finsac but it would be useful to indicate that the Deposit Insurance Corporation continues to make its presence felt in the sector quietly providing the assurance of stability. (We hope it will never have any work to do.)

It is useful to note that as of July 1, 2001 deposits covered by insurance were raised by 50% to (J)\$300,000 per deposit, per institution.

At this level 97% of all accounts are covered in commercial banks, merchant banks, trust companies and building societies. It is an interesting statistic that 97% of accounts only equals a third of the total value of such accounts.

I now turn to Finsac. Finsac, which is now just five (5) years old, has preformed in a way few institutions have done, in terms of the achievement of objectives, explicitly stating its targets, making them and then moving on. In the process Finsac, has protected the holders of 570,000 insurance policies with a sum insured of \$175B and the pensions 55,000 pensioners with pension funds valued at \$19B. In the banking sector, the intervention of Finsac has protected the holders of 1 ½ million deposit accounts valued at J\$70B.

Within our economy these achievements are significant as the establishment of Finsac and the manner in which it has achieved its objective have combined to protect the standard of living of a high percentage of the Jamaican population.

I have heard a few mis-informed remarks that the activities by Finsac have only benefited the middle class and the rich but not the poor. I respond in two (2) ways. The first is that it is an error, either deliberate or made in ignorance, to assume that only the middle class and the wealthy have bank accounts, have pensions or have insurance policies. This is not true. Nonetheless, let us focus on what it has done for the middle class.

There are times when we are so inward looking that we do not see the implications of local developments and the lessons learnt from similar occurrences everywhere. Let us look once again at Argentina and see the negative repercussions when the majority of their professional and middle class are faced with the prospect of losing all their assets and savings. In summary losing all hopes for the future. Their reactions in terms their contribution to social disorder, have serious implications for the rebuilding of the socio economic infrastructure of the country. A similar occurrence in Jamaica was a distinct possibility, had not the Finsac intervention taken place.

The work done by Finsac for the last fiscal year is a matter of record. It is a record, particularly over the last five (5) months, about which we all should be proud. We literally have been on "rapid fire" in the following activities. Completion of sale of Union Bank to RBTT, the completion of the sale of LOJ, the conversion of Finsac's bonds to LRS in NCB, the sale of the bad loan portfolio and finally the sale of the GOJ's 75% holdings in NCB.



The work done by Gladstone Bonnick and subsequently by Patrick Hylton and the Finsac team has received international acclaim. Those located abroad who assess their performance do not fully understand the hurdles they had to overcome to get on with their work.

At each stage, there were, and there are, detractors who could have done it better, faster and cheaper and there are those who seek to avoid meeting their obligations through the often frivolous use of our judicial system. Nonetheless, we have pressed on.

### The Exit Strategy

When Finsac was established, we projected a life span of five to seven years. Five years have passed and we can now specifically identify six (6) remaining major tasks to be carried out.

- a) Sale of the commercial real estate portfolio: Finsac has received tentative expressions of interest from both local and overseas persons and there is every reason to believe that either the entire portfolio or significant parts will be disposed of by the middle of this year.
- b) The sale of 25% shareholding, Island Life: We expect to sell 50% of this stake to Barbados Mutual with the remaining shares offered to existing shareholders. This should be done by May.
- c) Sale of 20.5% of Dyll Group Limited: This is dependent on Dyll Insurance redeeming the investment instruments held by Finsac – the current timetable is June.
- d) Redemption of (US)\$8 ¼M of deferred shares in VMBS: The schedule for the redemption of these shares in 2004. However, present indications are that it may be possible to complete this by the middle of the year.
- e) Completion of liquidation project. Liquidation of 170 companies.
- f) Transfer of the forensic and prosecutorial unit.

Given these six (6) tasks it should be possible to close out Finsac, as we know it, by mid June.

Apart from the technical work which Finsac has carried out, these continues to be the debate which will not be settled today will related to the impact of the financial sector crisis on the development of the domestic entrepreneur class.

It is a fact that the investments which should have been made in the acquiring the intervened institutions e.g. Island Life, LOJ, Mutual Life, Union Bank, shares in Cement Company, the bad loan portfolio and more recently NCB have all originated from outside of Jamaica.

On the one hand, this may be seen as a positive. Obviously it is a positive when new investment resources have been introduced in the country as well as entrepreneurial managerial talent. These are vital inputs for regeneration of any economy.

On the other hand, questions are posed as to what of domestic entrepreneurial talent – has the government been too harsh in dealing with those who dared to try, but who failed when trying.

It is clearly an interesting question in any country, any nation state, even in an increasingly globalized world one must seek to stimulate domestic entrepreneurial talent.

As the representatives of a movement founded on the basis of developing and reinforcing confidence in our domestic capabilities, we are concerned about such an issue. We are concerned about how to foster a regeneration of domestic entrepreneurial talent.

However, at the same time, let us not be overly romantic and place such a premium on fostering the development of domestic entrepreneurs that they be permitted total freedom to take cavalier decisions about the use of resources of either depositors or investors. The fact is that one has to make a critical



distinction between entrepreneurial activities in the non-financial sector as opposed to those involved in handling peoples' money.

Those entrusted with handling the financial resources of others have a unique position of trust made possible through licensing from the regulatory authorities. That is why "fit and proper" criteria have to be rigorously enforced. There is a big difference between someone being cavalier in running a factory and being cavalier in managing a bank.

The country has paid dearly and will pay dearly for the next several years for the errors of judgement of many entrusted with managing the resources of other persons.

At the same time, let me publicly state that almost concurrent with the existence of Finsac, there has been the emergence of a new generation of highly trained professionals in the financial sector who have no difficulty in operating in a more tightly regulated, yet more competitive financial sector.

#### Cost of Finsac's Intervention

Sometimes I hesitate to provide data on the cost of intervention in the financial sector as I can safely predict the headline such as " Minister admits that intervention will cost billions" or Minister admits that Finsac's intervention has preempted investment in the social sector."

All the above are true. The crisis in the financial sector and the steps taken to resolve it have been costly and will continue to impact on the fiscal budget for years in the future.

As we have said repeatedly, this Administration does not regret the decision to intervene. It is an open question whether social order as we now had could have been maintained had not intervention taken place.

At present, domestic debt amounts to just over \$300 billion of which just over a third is directly due to Finsac's intervention. This third of the domestic debt represents 27% of GDP and it is not the whole story as we have already paid down significant amounts of principal and interest in order to reduce the burden.

Simply put, if we were not faced with the Finsac's debt the debt to GDP ratio today would be just over a 100%, which is our target for three years hence. That should give us all reason to reflect.



## DEBT MANAGEMENT

I have made several references to the extent to which the high debt level and the consequent debt service costs dominate this Budget Presentation. This is a simple fact, which anyone in charge of economic management will have to deal with.

It is not a “hand waving” exercise; it is not something, which can be wished away. It requires implementation of a credible set of policies, as there is a vicious cycle associated with bad debt management and a virtuous cycle associated with good debt management.

As regards the former – bad debt management - there is an old saying that “one has to be rich in order to be poor.” Put another way “the poor pay more.” From the perspective of either a private sector person or government, the more questions there are about ones ability to repay, the higher the risk placed beside your name and the higher interest charges for any loans you may raise. The higher the interest charges, the less you have to spend on social infrastructure. This then brings into question social stability or the ability of the country to invest inadequate infrastructure to attract additional investment.

The flip side of the coin is that the greater the confidence of creditors in ones ability to pay, the lower the interest rates, thus freeing up resources for all the good things we need to spend money on.

It is therefore not a mystery why rating agencies, the multilaterals, our creditors, domestic and external, all point to the heavy debt burden as a major deficiency of the macro economic environment.

I have tabled a Ministry Paper entitled “Debt Management Strategy” describing both what took place during fiscal year 2001/2002 as well as what we intend to do in the new fiscal year. There is no need to go into all the details, as the Ministry Paper is indeed comprehensive.

However, it is imperative that I do dedicate some time in this presentation to our debt management strategy and, in this regard, I am not only speaking to the members of this Honourable House but I am speaking to our domestic creditors, our multilateral creditors and creditors in the international private capital markets.

I want everyone here to understand that what is being said and will be said in this Debate will be monitored, not just in Kingston but in Christiana, in Montego Bay, in Tokyo, in New York, in Boston and all the areas where person have committed resources to lend to this country.

The debt management strategy in the last fiscal year was greatly hampered, as were all other aspects of economic management, by the need to find additional outlay following urban violence in July and more so by the after effects of 9/11 which had a devastating effect on the travel sector. We also had to deal with the floods, resulting from Hurricane Michelle which affected the parishes of St. Mary and Portland, in particular.

These three (3) shocks simultaneously affected revenues and created the need for additional expenditure. In fact, these were a major cause of the significant deviation from the original fiscal targets forcing the government to borrow more than was planned including an emergency loan of US\$75M from the World Bank.

Where are we now? At the end of March 2002 the total stock of public debt was \$495B which is 133% of GDP. Of this domestic debt was \$300B – 81% of GDP.

At the end of March 31, Finsac - related debt accounted for just over a third of outstanding domestic debt that is 27% of GDP. This \$100B figure comes after there have been significant payments against debts assumed as a result of the intervention in financial institutions.



One clear indication of the impact of Finsac's debt on the country's overall debt stock is that if we subtracted the Finsac debt from the total, the rest of domestic debt grew by 2.7% during the fiscal year compared with 7.3% in fiscal year 2000/2001.

Let me now turn to the debt strategy for fiscal year 2002/2003. Our major objectives are as follows:

- i) to maintain a prudent debt structure
- ii) to further diversify the debt portfolio
- iii) to increase reliance on market determined instruments for domestic debt issuance
- iv) to promote and build a liquid and efficient market for government securities
- v) to increase the transparency and predictability of primary market debt issuance.

All the above combine for the primary objective which is to minimize debt service costs and to reduce the overall debt burden.

As I have indicated, the Ministry Paper provides a detailed discussion of all the five (5) objectives, which I have listed. It is neither necessary nor possible, given time constraints, to discuss each and so I will focus on some of the more salient points.

#### Extending the Maturity Structure of the Debt

During this coming fiscal year, efforts will continue to lengthen the maturity profile of both external and domestic debt. On the domestic scene this objective will be achieved primarily by issuing long term LRS with a concentration of issues with maturity of seven (7) years and over. One objective is that by the end of fiscal year, LRS's with maturity of ten (10) years and over will account for 20% of the debt stock. A year ago this percentage was 6.6%. I would remiss if I were not to mention the major achievement, which took place last year with the issuance of a thirty (30) year bond to assist with financing of Highway 2000.

I have deliberately listed that as I will now make reference to the successful issuance of a twenty (20) year bond on the international capital market in December, which was vastly oversubscribed.

#### Minimizing Currency Exposure

There are two (2) aspects to this strategy. The first is to minimize the non-US dollar currency risk and the second is to limit the share of US dollar exposure in domestic issuance. Both are discussed in the Ministry Paper but I wish to turn to the latter in this presentation.

The issuance of US dollar-denominated or US dollar indexed securities on the domestic market has led to an increase in the share of the domestic debt portfolio exposes to US dollar currency risk. At the end of March 2002 these two (2) categories of bonds comprised 15.4% of domestic debt, compared to 8.1% a year ago.

We are concerned about such a high percentage and the objective in this year is to reduce this percentage to 14% at the end of fiscal year 2002/2003 and then gradually reduce it to a maximum of 10% of domestic debt by the end of 2004/2005.

#### Increased Transparency

In order to increase transparency and predictability on governments debt operations, the Ministry of Finance will increase the level of information provided to the market.

This will be done through regular announcements of debt issued to the public by an annual calendar for Treasury Bills and LRS auctions.

The calendar will indicate the timing of the issues and the market will be notified of the amounts and terms of the issue at least four (4) business days prior to the tender dates.

#### Market Consultation



Consistent with the twin objectives to reducing borrowing costs and further developing the domestic market, the Ministry of Finance will be maintaining ongoing dialogue with market participants. A forum already exists for such dialogue through regular meetings of primary dealers with government agencies.

#### Medium Term Objectives

When all is said and done, the most critical tool in improving the debt dynamics is to return to fiscal operations to a surplus.

As regards the return to a fiscal surplus, our present objective is that this will take place by fiscal year 2004/2005 (nearly halfway through the fourth term!)

The associated target is that the debt to GDP ratio (presently 133%) will at that stage be one to one, that is the total stock debt will be equal to GDP.

We have deliberately spent a lot of time preparing the Ministry Paper and I have allocated some time also to discussing the debt management strategy. I have done this for several reasons but I will list but two (2).

The first is that, as I have said repeatedly, the reduction of debt servicing costs must be seen as a prime objective of macro economic strategy in the medium term. Everyone agrees on this. The second reason is that creditors wish to have clear understanding of how this process will take place. When I speak of creditors I mean both domestic and external.

If I were asked to single out an aspect of the Jamaican financial sector which has made the single greatest advance over the last five (5) years I would have no hesitation in choosing the improved capability in the sector in terms of assessing bonds issues, both domestic and external, and determining how best to invest clients' money.

As such the issue of the debt management strategy is not a "joke business" to be dealt with in a frivolous manner suggesting that one will seek loans at 3-5% in order to replace high cost debt. There is no 3-5% money issue around waiting and if there is some, you may need a lot of soap and detergent to treat it before use.

Therefore, I hope that both this part of my Presentation, but more importantly the Ministry Paper which has been tabled, will serve to lift the Debate on debt management to a new level. The people of the country deserve better. Most important our creditors demand better.





## THE EXPENDITURE BUDGET

**OVERVIEW** – The Budget for fiscal year 02/03 calls for an expenditure of \$210 billion, an increase \$25 billion over the approved budget of 01/02 but a decrease of \$10 billion when compared to the revised budget as compared to the Supplementary Estimates.

The Recurrent Budget of \$125 billion is divided - \$65.6 billion for Salaries and Other Operating Expenses and \$59.6 billion for interest payments.

The Capital Budget is \$10 billion for projects and \$75 billion for amortization.

When amortization and interest payments are combined, the total - \$135 billion - accounts for 64% of the total expenditure. This is the major issue to be considered, although this figure represents a reduction in absolute terms and in percentage terms compared to last year. For the revised budget of ½, debt servicing accounted for \$148 billion or 67% of the budget.

Domestic debt servicing accounts for \$85 billion, \$42.4 billion for amortization and \$42.7 billion for interest payments compared to \$122 billion for 01/02.

The significant reduction is in terms of amortization where last year's figures included provision for pre-payment of debts previously held by FINSAC. As such this year's figure of \$42 billion for amortization represents a 48% reduction when compared to the figure of \$82 billion for last year.

It would be recalled that there are several comments about the unexpected jump in the revised budget. The reason for that relates mainly to the decision to pre pay certain debts using the proceeds of the sale of LOJ, NCB and other FINSAC assets, as well as the divestment of JPS

The increase in interest payments during this year, compared to last year, is mainly attributable to the additional interest costs associated with the LRS's, which have been issued to replace FINSAC bonds.

Those points made about debt should demonstrate the extent to which debt servicing is the critical component of the budget. However, even whilst acknowledging the dominating presence of the debt burden and the consequential need to restrict expenditure, within these constraints we will not sacrifice the Solid Achievements either in terms of macro-economic stability or in developing social infrastructure. We will focus on three such areas – Education and Training, National Security and Social Security.

As regards Education, this area of expenditure has been allocated through the budget just over \$21 billion for both recurrent and capital projects. This represents 28% of non-debt expenditure. \$20 billion is for recurrent expenses and just over a billion for capital. Two points should be made at this juncture.

The first is that the allocation listed here for education understates the full amount spent on this most critical area of the social services. Also to be considered would be expenditure through HEART. An additional amount of \$2.35 billion to be provided to the University of the West Indies, as well as funds which will be expended through the UDC for the construction of new schools.

As regards the school building programme by the UDC, the present phase to be completed in July will have seen 10 schools built at a total of \$1,300 million. Later this year, a new project will start for schools in Western Jamaica.

When these additional sums are taken into consideration the fact is that the \$21 billion listed formally in the budget does not adequately indicate the full extent of the continued commitment to education.

**NATIONAL SECURITY AND JUSTICE.** These functions have been allocated \$13.3 billion to the Ministries of National Security and Justice – 17.6% of non-debt expenditure. We consider this



expenditure to be justified not simply because the physical safety of our citizens and overall social stability are desirable objectives, but also, and no less important, is the fact that Jamaica's reputation as a location characterized by high levels of crime and violence has significant economic cost.

One example can be provided. Tourism is our most important foreign exchange earner, but is also critical in terms of employment and linkages with other sectors. However, Jamaica's ability to exploit its full tourism potential or to attract foreign investment is hampered by its reputation as a crime-ridden country. The end result is that rates charged by hotels in Jamaica are significantly less than those which obtain in destinations which are not comparable.

Just yesterday I enquired of a significant player in the industry and he indicated that a conservative estimate is that the equivalent of a good Jamaican property in St Lucia, Antigua or the Bahamas would command rates of about 30% higher than those which are charged in Jamaica, simply because of our reputation.

Consider the economic impact, if over the next five years systematic reduction in crime levels were translated into increased visitor arrivals, paying rates consistent with the product offered.

Consider the economic impact if businesses did not have to allocate such huge sums to employ private security to complement the state security forces.

This Administration is committed to such a programme of crime reduction and within that context a capital budget of \$1.1 billion has been approved.

Major components of this allocation include \$360 million for equipment for the Police; \$160 million - partial payment on two Fixed Wing Aircraft for the JDF; \$150 million – partial payment on three large Offshore Vessels for the JDF; \$86 million for additional telecommunications equipment for the JDF.

However, we are not just spending money on equipment. \$100 million has been allocated for constructing and improving Police Stations and \$40 million for Court Houses (**LIST**).

**SOCIAL SAFETY NET PROGRAMME** – Net income transfer programme, recently launched by the PM. Programme for Advancement through Health and Education (PATH).

\$650 million provided under Capital B.

PATH will replace Food Stamps, Kerosene Stamp, Old Age and Incapacity Allowance, Poor Relief Programme.

Just three examples that despite the tight budget, commitment to social programmes will not be compromised

**DEFERRED FINANCING.** I wish to turn explicitly to an area which has, in the last year or so, received a great deal of attention – not all favourable, I e deferred financing. It is important that this be put in context.

The facts are that over the last five years revenues and grants have grown by 98% but non-discretionary expenditure has grown by 138%. The major contributor to this area of expenditure is debt servicing which has moved from 44.5% in 1996/97 to 64% in 02/03.

Contrast that with discretionary expenditure on the social sectors and investment in infrastructure. This has declined from 26% to 14% of total expenditure.



This reduction has posed a challenge. How can the Government provide basic level of services while maintaining a prudent fiscal policy? The strategy, which has been utilized, is not a new one. It is a joint public/private participation in the development of infrastructure, but with clear guidelines.

This programme, which has been loosely called “**Deferred Financing**” is one which could better be termed “**Special Financing Mechanisms**”.

The policy of the Government is to confine such special financing methods to major infrastructure projects such as road constructions, as well as schools, hospitals or Police stations. This Administration has laid out a specific set of guidelines governing the way in which projects may be funded through this method. Amongst the measures which have been developed and implemented are –

- The risk and full potential cost of all new contingent liabilities and deferred financing arrangements must be recognized prior to their approval.
- A ceiling on the expected cost of all GOJ activity including contingent and direct liabilities in any sector will be applied, and
- The fiscal impact of such liabilities must be considered within the context of the medium-term fiscal framework.

During the last fiscal year the decision was taken to further streamline the operations of the deferred financing mechanism. A \$2 billion facility has been placed at the DBJ to finance road rehabilitation and maintenance work undertaken by private firms contracted to the Ministry of Transport and Works.

There are also certain large projects, which are managed by the UDC on behalf of the sector ministry. This is a continuation of the role, which has been played by the UDC from its establishment.

For such projects, the UDC will liaise directly with the Ministry of Finance and Planning, the selected contractor and the selected financial institution.

Over the last four years, \$8 billion has been disbursed through the deferred financing mechanism of which \$5 billion has been formally included in the stock of debt. The remaining \$3 billion will be taken on the Central Government’s account over the next five years.

During this fiscal year 02/03 \$1.8 billion will be taken into the debt stock.

The FAA Act has been amended and the regulations for the use of these facilities formulated. The amendments will provide for amounts payable under such agreements to be charged to an appropriation of the portfolio ministry in the financial year in which the payment becomes due.

From the foregoing it should be clear that no ministry can enter into a deferred financing agreement without the approval of Cabinet and the approval of the terms of the financing arrangement by the Ministry of Finance.

As I have stated before, the deferred financing mechanism is not new. It represents an acceptable method to address pressing national needs for social and physical infrastructure.

The critical requirement is to put in place appropriate checks to ensure that order, accountability and transparency predominate.



## GROWTH AND EMPLOYMENT CREATION

I have spent some time explaining the reason why the degrees of freedom in terms of expenditure are extremely limited. The size of the domestic debt in particular, dictates an extremely conservative fiscal stance.

However, at the same time we must do everything is possible to build on the positives, which now obtain in order to facilitate increased growth. For the record, whilst the 1.7% recorded in calendar year 2001 was not all we had hoped for, given three major shocks it is a testament to the resilience and diversified nature of the economy that such a figure was achieved. The question, which needs to be asked, is why is it credible that growth in the range of 2-4% is possible for the new fiscal year. We now speak to that question.

Let us begin with a step, which was taken two years ago to gradually remove the tax on dividends. The argument was advanced that this represented a major deterrent to equity investment. The Administration heard, listened and acted. As of this year, dividends are tax-free. This is not merely a symbolic act there has been a direct loss to revenues. Dividends in 1999/2000 contributed \$1.2 billion to revenues.

One cannot immediately speak to a precise impact on investment, but the fact is that the Jamaica Stock Exchange index is presently at a historic high, of over 37,000 points with market capitalization of just under J\$250 billion.

It is generally felt that the signal of the removal of tax on dividends has played a role in stimulating additional interest in the stock market. The results of the Survey of Business Conference provide concrete evidence that the “can do” feeling is spreading. There is a growing desire of people from all groups to “buy in” and be part of the Solid Achievements.

The signs for growth are bolstered by the level of foreign investment from which the country has benefited over the last three years. Let me just mention a few. Trinidad Cement’s investment in Carib Cement – US\$30 million; Mirant Corporation’s purchase of JPS – US\$200 million; RBTT’s purchase of Union Bank J\$1.6 billion; AIC’s purchase of majority holdings in NCB – J\$6.4 billion; Guardian Holdings’ purchase of Mutual Life, Crown Eagle and Dyoll Life – J\$1.3 billion; Life of Barbados/Barbados Mutual purchase of LOJ – US\$41 million and the list goes on.

I have not mentioned the purchase of the various hotels, which have been divested by FINSAC nor the other investments in tourism – e g the Ritz Carlton.

I am certain that there are those persons who will say that most of these investments reflect existing assets. Obviously that is true, but the fact that persons have taken up their cash and invested in this country is a powerful signal. It is a powerful signal which complements Government’s own significant investments in improving infrastructure.

In no sector has this investment been more visible than in the road network. Everyone – visitor or resident, speaks of this investment. Mount Diablo, Washington Boulevard, Trafalgar Road, the East Kingston Coast Road, Hope Road and the gem of them all - up to now - the Old Harbour By-pass. These are not dreams. These are literally – Solid Achievements – about which we all can be proud.

We are speaking of billions of dollars of investment, which will facilitate reduction in travel time and open up areas for further investment. Perhaps more important will provide persons with options as to where to live.



It is now quite easy for a professional or a working-class citizen to choose to live in May Pen and work in Kingston. Investors no longer have to seek to concentrate activity in Kingston and hence there are significant opportunities for rural towns to compete with the KMA in attracting the investment dollar.

The “Big Daddy” of road investments is about to start –with commencement of construction of Highway 2000. Phase I will cost just under (US)\$400 million with the French firm BOUGUOES, putting up 75% of this amount.

But the investments are not simply in roads. There has been the Gordon Cay expansion of the Transshipment Port; Phase III will be forthcoming. In the North East section of the country the development of the Marina in Port Antonio, as well as the imminent project to improve water and sewage infrastructure and drainage.

Investment in the telecommunications sector has been beyond our wildest expectations following liberalization and the removal of monopoly license. The growth in terms of number of subscribers has been exponential. It is estimated that, to date, the two new telecommunications companies have invested over US\$400 million and that is just the beginning. With the liberalization of the provision of land lines, we confidently expect another inflow of the investment dollar.

What is significant about this investment thrust is that unlike any previous pre-election period, there has been no slow down or a “wait-and-see” attitude. It will be useful for the political scientists to examine why this is so.

One thing is certain is that this level of investment has taken place cannot be a reflection of the absence of confidence in the Government’s policies. Why has the interest continued? A logical deduction would be that investors expect that the good policies will be maintained.

Perhaps they further expect that those who designed and implemented these sound policies will be in place to continue with the work. And perhaps they feel that even if the unexpected occurs, that any new Administration would be sensible enough to continue with the sound overall policies, which have brought us to this point.

Therefore, we may conclude that the combination of getting it right in terms of macro-economic policies, sustained investor interest and a commitment by Government in terms of infrastructure projects provides a credible basis for the expectation that the country has entered into a stage of unprecedented sustained economic growth.

One worrying question remains, why is it that domestic entrepreneurs have, to date, not been at the forefront of this investment drive? No one has a definitive answer, but we can seek to carry out some analysis, which will lead us to a possible solution. Clearly, the unfortunate debacle in the financial sector continues to have repercussions and it is not surprising that persons will be somewhat tentative in the aftermath, preferring to stay with guaranteed returns from investments in Government Paper, as opposed to risking resources in equity investments.

Another contributory factor must be the fact that interest rates still remain too high. That fact is recognized but the trends are in the right direction.

However, the country cannot simply sit and lament on the lack of domestic entrepreneurial involvement. There are opportunities and in an increasingly globalized world economy, others will identify opportunities and move toward them. Whilst one may wish to encourage domestic entrepreneurial talent, no Administration is going to refuse investment inflows from non-nationals when these result in a greater national output and more jobs. Therefore, this Administration says to the domestic entrepreneurs, we wish to work with you. Let us find ways of collaborating to maximize your possible contribution to the country. We want - no need you – to buy in and expand the list of Solid Achievements.



**EMPLOYMENT CREATION.** I have provided data on the employment levels for calendar year 2001. The plain fact is that unemployment at 15% remains too high. Furthermore, the unemployment rate amongst women is twice that for men.

However, in addressing the problem, let us separate employment amongst two groups. The first group is that of young people who are either unskilled or semi-skilled who have not found opportunities within the existing economy.

The approach to addressing unemployment in this cohort must be two-fold. In the first place, we will have to seek to train and equip as many of that group for meaningful employment in an increasingly changing economy. Opportunities exist, albeit not enough. However, this is not simply the responsibility of the State. Individuals need to take responsibility for their own lives.

Too many young people have, for whatever reason, refused to assume such responsibility, refusing to seek out opportunities to address deficiencies in their training whether it be skills or literacy. So whilst there is a role for the State, there is a need for many young persons in this group to take responsibility for their own lives and seek to grasp the opportunities for retraining.

Let the problem develop to be one of an inability of existing training institutions to respond to the demands. Whilst resources are limited, this is the problem which we would prefer to face.

A second aspect to addressing unemployment amongst this group relates to programmes such as Lift Up Jamaica and SESP or to projects implemented by the JSIF. This is not theory as we have enough examples. It is possible simultaneously, to provide gainful employment for persons from this cohort even whilst improving the physical infrastructure in communities. Whilst the limitations on expenditure do not permit the allocation, we would desire for such programmes, we recognize that for the medium-term such programmes will be needed to achieve the dual objectives.

We turn to a final group – trained and qualified persons who, at present, have difficulty in finding the job of their choice. We are confident that the problem here will increasingly be addressed by the expanding economic activity resulting from new investments. However, there is one area to which we commit ourselves to giving greater attention. It relates to young professionals with ideas but who are not in a position to mobilize capital needed to finance their entry into business. There are opportunities here for venture fund operations not necessarily public sector funded, although the State can play a role in this regard.

I deliberately raise this point as there is often the tendency to assume that employment will only come when someone offers you a job. It is not often that it is recognized that self-employment is indeed a feasible option. Increasingly, in other countries young professionals have made the deliberate choice to become their own employers. I invite dialogue with representatives of such professional groups to see how we can work together in terms of fostering such developments.



## FINANCING THE BUDGET

As everyone knows, we are faced with a projected expenditure of approximately \$210 billion, much of that amount relates to debt servicing; amortization of \$75 billion, and interest payments of \$60 billion. For non-debt expenditure including capital projects, the total is \$75 billion.

How do we intend to finance this level of expenditure? Our passive projections are that tax revenues will amount to just under \$100 billion and combined with other inflows, revenues and grants will amount to \$108 billion.

Within the context of our medium-term programme, members will recall that the objective is to return the budget to a smaller surplus for fiscal 04/05. Therefore, there is a limit to the amount which we intend to borrow. We project domestic borrowing of \$58.3 billion, and external borrowing of \$26.1 billion, providing total loans of \$84.4 billion.

Of the \$58.3 billion to be borrowed domestically, \$42 billion will be used to amortize domestic debt. The incremental borrowing will be \$16.4 billion.

External borrowing is projected at \$26.1 billion and external amortization \$36.2 billion. Therefore, \$6.1 billion of the domestic borrowing will be used to amortize external debt.

Hence, on a passive basis, revenues, grants and loans will contribute \$192.4 billion. There is, therefore, a financing gap of \$17.6 billion.

Now to closing the gap. We intend to continue aggressively with our divestment programme, including the sale of FINSAC-related assets, including our share of the Jamaica Grande, the sale of the remaining JPS shares, the sale of the remaining Cable and Wireless shares, and the sale of another cellular license.

No one can question our commitment once we have decided to divest, and from these areas we project inflows of just under \$9 billion. This now leaves us with a gap of \$8.7 billion.

In our constant review of tax collection, it is clear to us that there are those who consistently pay what is due and there are others who find where to either totally avoid making their contributions or seeking loopholes. In fact, whenever I meet with taxpayers, particularly PAYE, their complaint is not about the rate they are forced to pay, but the fact that there are too many who are still not making a contribution. It is a matter of equity.

Over the years, we have identified several loopholes, which have been explored, particularly in terms of the GCT Act, and this will be tightened through legislation. Many of these pieces of legislation are already drafted and will be taken through Parliament during the legislative year.

We have also decided to ensure that professionals who require certification and licensing from government receive this certification, only after demonstrating that they are fully complied in terms of their taxes. This requirement has already been applied to contractors who are seeking government work.

Next, it has been the practice that several public enterprises receive special tax exemptions, including receipts of gross interest. Legislative action where necessary, will be taken to remove these special privileges - in particular, withholding tax on interest.

Each year, the Ministry of Finance receives a large number of requests for waivers or the remission of taxes. This applies to persons who indicate that the duties charged on motor vehicles were far greater than expected or that the transfer tax payable on a piece of property given to them by a relative was exorbitant. Our research has indicated that waivers granted during 1999-2002 amounted to between \$3 and \$4 billion each year. It is our belief that we have just been too generous, although there have been



worthy cases. I wish to signify to the country that we intend to be very stringent in granting waivers in the future.

The final major area to be tightened relates to a development within the financial sector of recent vintage. GOJ Euro Bonds are issued free from transfer tax, stamp duty, and income tax. Subsequently there are local brokers who have acquired such bonds and used them to create derivatives. By law, these derivatives are new products and the interest on income is subject to tax. Some local brokers involved in this practice have been adhering to the law and deducting tax on the interest at source. However, there are several brokers who have not done so.

The authorities are currently conducting detailed audit inspections on those transactions to ensure that the tax on the securities is paid.

In looking at the entire public sector, there are several areas where services are provided either free or for a token charge. In this financial year, we will be developing programmes to recover a portion of their costs. The respective Ministry/Agency will propose the necessary legislature/administrative changes to implement cost recovery.

These measures, tightening the legislation of the GCT Act, canceling the tax exemption for certain public enterprises, the auditing of financial institutions which have not paid over tax which is due and payable on derivatives, are expected to combine to provide an additional \$8.9 billion in revenues.

These are not new measures. Rather, they represent a concerted effort to "level the playing field" to ensure that, to the greatest extent possible, taxes which are due and payable do reach the Consolidated Fund.

Achieving these targets will require adhering to a very tight programme of work. It requires a vigorous legislative programme, as well as heightened activity by the tax authorities.

The Administration is aware that over the last financial year certain taxpayers have fallen into arrears in respect of Income Tax. An active compliance programme has been developed to significantly reduce the level of delinquency. From the resources available to the Administration, we have a fairly good idea of these persons and will be aggressively pursuing them in this financial year.

We are also aware that in most cases these sums include a substantial amount in penalties and interest. We would not like to know that the penalty and interest act as a deterrent for such persons to come forward and so it is proposed that those persons who come forward and make appropriate arrangements with the Inland Revenue Department will be given special consideration in respect of relief from penalties and interest.

Experience has shown that for the most part these cases are complex matters and so the Department prefers to deal with them on a case by case basis within the broad policy guideline that the level of relief will depend upon timeliness in arriving at terms for settlement and liquidating the debt.

This offer is for three months and ends July 31, 2002. There will be no extensions after July 31, and all settlements must lead to the liquidation of the debt in this financial year.

- The Ministry Paper which has been tabled, provides further details on the specific legislative changes which be addressed.

In terms of the proceeds from divestment, the recent history clearly demonstrates, particularly over the last three years, that it is possible to stick to established targets, given the level of interest in investing in Jamaica.





In summary therefore, the combination of the divestment activities and a more vigorous application of the tax laws is projected to yield an additional \$17.7 billion, thus clearing the financing gap which was identified initially.



## CONCLUSION

I have presented a tight expenditure budget for fiscal year 2002/2003 within the context of a medium term framework whereby by fiscal year 2004/2005 two significant targets will be realized.

The first is that Central Government accounts will return to surplus and the debt of GDP ratio will be at the level of 100%. Whilst tight fiscal management and astute debt management will contribute to achieving these. Much will be dependent on maintaining and accelerating the developing growth momentum. This growth momentum will be stimulated, not by reckless gambles, which could threaten the hard-earned stability and undermine the impressive list of solid achievements, but rather to build on that stability to provide investors and the ordinary man with a sense of confidence that the targets, which have been articulated, can be achieved.

Even as we look forward, we must also look at the recent past to see whether there is a basis for confidence in our achieving the targets, which have been articulated. Simply put, is there a basis for having faith that this Administration can deliver on these targets. So before we speak of our expectations, our vision for the future, let us reflect on what has happened over the recent past. Let us choose any set of indicators, which will give substance to our claim of an enviable record of solid Achievements.

### Poverty Levels

A percentage of Jamaicans classified as living in poverty begins in 1990. The percentages are as follows.

<b>1989</b>	-	<b>30.5%</b>
<b>1990</b>	-	<b>28.4%</b>
<b>1991</b>	-	<b>44.6%</b>
<b>1992</b>	-	<b>33.9%</b>
<b>1993</b>	-	<b>24.4%</b>
<b>1994</b>	-	<b>22.8%</b>
<b>1995</b>	-	<b>27.5%</b>
<b>1996</b>	-	<b>26.1%</b>
<b>1997</b>	-	<b>19.9%</b>
<b>1998</b>	-	<b>15.9%</b>
<b>1999</b>	-	<b>16.9%</b>
<b>2000</b>	-	<b>18.7%</b>
<b>2001</b>	-	<b>16.9%</b>

We have not eliminated poverty but we have certainly made significant progress.

### Access to Electricity

In 1989 only 63.4% of the population had access to electricity. In 2001 the figure was 86.1%. We are working on the remaining 14%.

Let us look at access by region. In 1989 in the Kingston Metropolitan Area 83.4% had access to electricity. In 2001 the figure was 92.4%.

In other towns, in 1989 67.6% had access, in 2001 the figure was 88.1%. In rural areas 63.6% had access in 1989. In 2001, 79.5% had access.

Apart from the overall improvement nationally, the fact is that there is no significant difference between the KMA and other areas of the country. Increased access to electricity – another solid achievement.

### Telephones



Let me begin with landlines. In 1989 there are 88,000 lines. In the year 2001, there are 511,000 such lines.

But as you and I know, that is not the real story. The real story relates to mobile phones – cellars. As a result of the liberalization of telephone communication, there has been one of the most significant technological revolutions with the ability of everyone and almost anyone to possess their own link with the world. The numbers are changed everyday and no one dares to predict what tomorrow's level of ownership will be. However, a rough estimate is that there are presently 700,000 cellars in operation in Jamaica.

Access to a modern telecommunications system. Another solid achievement.

#### Motor Vehicles

In my opening remarks I spoke of an early period when a second sale person of a vehicle was often far in excess of the cost of a new vehicle.

This Administration liberalized the import trade in terms of motor vehicles and over an eleven (11) year period, 1991 – 2001 over 350,000 motor cars and a total of half a million vehicles were registered.

Whilst those who always had this “luxury” protested about over-crowding in the streets, those who never had, can now enjoy the freedom of movement which many had considered their exclusive province.

From our perspective we viewed the traffic jams as a “higher order” problem. As long as we can enforce discipline on the roads, mutual respect – one driver to another, working through the traffic problems then becomes a technical issue which we intend to deal with.

Increased car ownership by teachers, policemen, and farmers – another solid achievement.

We do not wish simply to focus on electricity, phone and cars. Let us talk about social infrastructure, in particular education. I will use two indicators. In 1989 the total enrolment of students in tertiary institutions was 19,000. For the year 2001 the figure was 31,000, an increase of 63.2%. The truth is that 31,000 underestimates the real figure as a new phenomenon, which has had a serious impact on our education system, relates to the number of overseas universities which are offering graduate study to Jamaicans in various forms including through the distance education method.

Vastly improved access to tertiary education – another solid achievement.

Let me turn to the issue that arouses a great deal of emotion whenever it is raised. This is a level of remuneration for our teachers in the education system. We have carefully researched the numbers and when we present them, I am certain that most, if not all, members of the Honourable House will be surprised.

In 1988 a trained teacher was paid \$19,140.00. In 2001 this teacher received \$407,000.00. Obviously you will speak of inflation. If you take inflation into consideration the real increase between 1988 and 2001 is 422%.

What of the graduate trained teacher. In 1988, she made \$22,482.00. In 2001 she made \$530,000.00, a real increase of 478%.

Let us return to the high school principal. In 1988, she made \$35,000.00. In 2001 she made \$937,000, a real increase of 556%.

Others may wish to make a comparison in US dollars as they will speak to devaluation. The increase for a trained teacher denoted in US dollars between 1988 and 2001 was 150%. For graduate teachers, the increase in US dollars terms was 177% and for the high school principal the increase was 214%.



Look at the numbers any which way, the end result is the same. In terms of improved salaries, our treatment of our teachers is another solid achievement.

I have merely sketched a break down of the fact that using any range of indicators the life of the ordinary Jamaican has significantly improved during the decade of the 1990s. Still in any poll results a significant percentage will disagree.

I do not find this a surprise, as the more one delivers to the population, the more that population is aware of what is possible and the greater the expectation of what the State should provide. That is both a good thing and the bad thing.

It is bad thing, in that oft times these demands bear no relevance to the resources available to the state to discharge its responsibilities. On the other hand, it is useful for the population to consistently seek greater efficiency and a greater level of service from its government.

The critical trick is the show that value is being provided for the tax dollar and hence gains the confidence of the citizens that they will receive the quality of service that they have paid for.

We are not for one moment claiming that we have responded to all the aspirations and needs of the population. However, we are confident that we have demonstrated the ability to design an appropriate policy framework to ensue sustained socio-economic improvement. Against that backdrop, let us look to the future.

Our long-term vision for Jamaica is of a country that is increasingly prosperous and in which individuals feel increasingly safe and one where equity prevails. Furthermore, our vision is a society in which every individual as afforded the opportunity to realize his/her full potential as a human being. For us, this can only happen within the framework of an economy growing in a stable environment, where the level of uncertainty is low and where businesses are able to utilize inputs of production, which allow them to be globally competitive.

Short periods of economic growth are not that difficult to achieve. There are those who often speak of the 80s as if the data are not readily available. The fact is that in the 80s there were three years, towards the end of the decade, when there was significant growth. This growth was sustained into the early 90s after which the impact of the financial crisis took its toll.

The period 1989 to 2001 had accumulated growth, in real GDP, of 20.7% giving an average annual growth rate of 1.7% for the period. Interestingly, this is not much different from the average growth for the 80s, which was 2.0% per annum. The only logical conclusion to be drawn is that neither the 80s nor 90s was there growth adequate to transform the lives of the people.

Now that we have returned to the growth path, the obvious question is can we sustain it.

We are at an interesting point in our history. The differences in terms of policies and ideologies have been significantly reduced. We therefore have to capitalize on this consistency in analysis, for the benefit of the country. This Administration has laid out its model of development showing what have been positive results and what have been the failures. The question to be posed by the public is: Is there a credible alternate set of proposals? If so, when will they be advanced?

The alternative cannot simply be to rehash the past, reciting failures. It cannot be cavalier talk of lowering interest rates to 3% - 5% range. It cannot be to vacuously claim, "We will attract investments and create good jobs." These are all objectives everyone will agree to. The point is what would you do differently?

This Administration wishes to establish certain targets for this country. Amongst the targets - we need for every sector to bench mark itself against world competition.



We need to make Jamaica an investment grade economy within five (5) years.

To achieve this objective we need to bring the debt to GDP ratio not only to the 100% figure, which I have mentioned, but at the 90% level. We need to return the fiscal to surplus, thus allowing interest rates to fall to levels comparable to those which hold elsewhere in the region.

We need to achieve all these targets without for even one moment, losing any of the significant gains, which we have achieved in terms of macro economic stability, or aborting our programmes geared at further social equity.

Anyone who has visited Jamaica for the first time leaves puzzled by the way in which the country is characterized by some of its citizens. This is no Third World country!! This is a country which has the potential to break loose on a self-sustained path of growth.

To do this, there is need for leadership which summons to country to achievements net previously thought possible – not leadership which emphasizes our limitations

To do this there is need for leadership from an Administration with a proven track record to deliver on commitments and ever more important an Administration with a clear vision based on what is feasible and what is credible.

Madam Speaker, with all humility I would agree that our record of solid achievements over the past thirteen (13) years, but especially during 2001 – a year of enormous challenges – proves that we are equal to the task.